QLT PhotoTherapeutics Inc.

annual report
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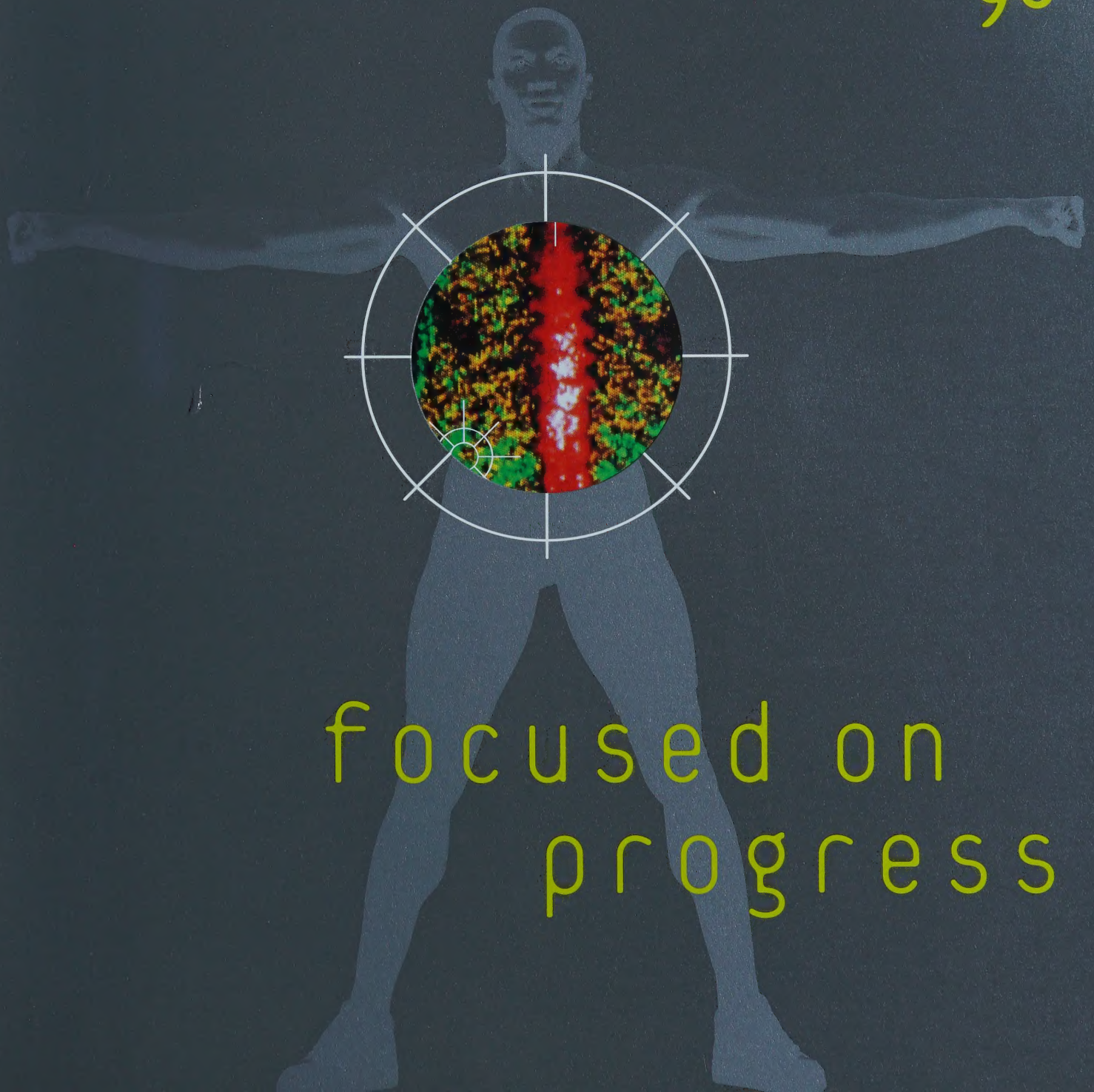


focused on progress

Corporate Profile

QLT PhotoTherapeutics Inc. (QLT) is a world leader in the development and commercialization of proprietary pharmaceutical products for photodynamic therapy, a field of medicine that uses light-activated drugs for the treatment of cancer, diseases of the eye and other medical conditions.

QLT's lead product, PHOTOFRIN® (porfimer sodium), has been approved and is being marketed for the treatment of specific cancers in the United States, Canada, Japan, France, and the Netherlands. QLT is the only company in any jurisdiction to have achieved regulatory approval for a light-activated drug and related devices used with photodynamic therapy.

The Company has a diversified portfolio of photodynamic therapy products, including Benzoporphyrin derivative (BPD-MA [verteporfin]), a second-generation product which is in Phase III clinical trials for the treatment of age-related macular degeneration (AMD), the leading cause of blindness in persons over the age of 50.

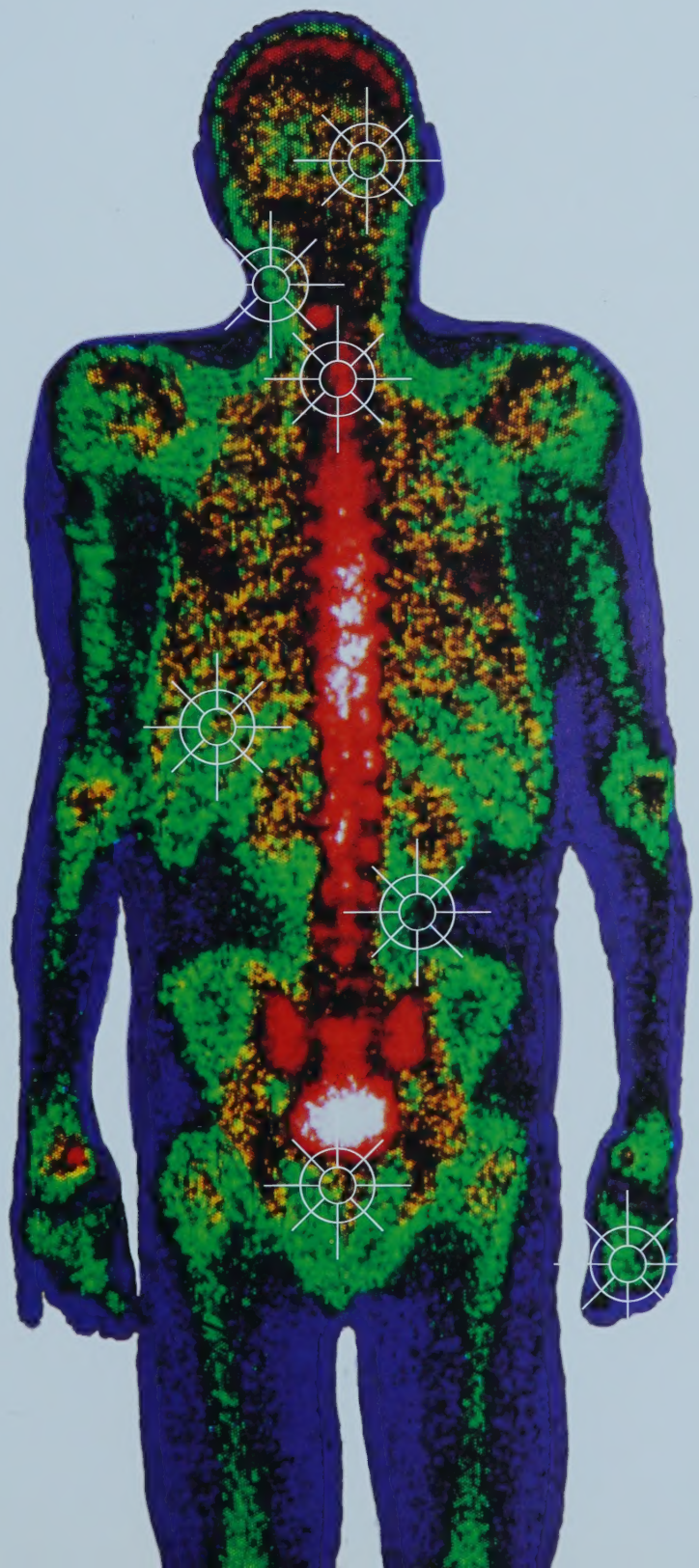
CONTENTS

Highlights	2
From the Board	4
Letter to Shareholders	5
The Technology	8
The Business Strategy	9
Product Pipeline	22
Management's Discussion and Analysis	24
Management Report	28
Auditors' Report	29
Financial Statements	30
Notes to Financial Statements	34
Common Share Information	42
Selected Financial Information	43
Corporate Directory	44

Development Focus

The Company has formed key strategic alliances for the manufacturing, development and international marketing of its products. Current partners include Sanofi Pharmaceuticals, Beaufour Ipsen, Lederle (Japan), CIBA Vision, Ligand Pharmaceuticals, American Home Products, Coherent and Laserscope—leaders in both drug and medical device sectors.

With the launch of PHOTOFRIN® in a number of markets in 1996 and 1997, QLT should begin to generate revenues from sales of PHOTOFRIN® by its strategic partners within the next year. In the mid to long-term, the Company's objective is to achieve and sustain profitability by expanding to new markets with approved products, and by developing and introducing a series of new products to the marketplace.



- AGE-RELATED MACULAR DEGENERATION (AMD)
- MYOPIC MACULAR DEGENERATION (MMD)
- HEAD AND NECK CANCER
- ESOPHAGEAL CANCER
- BARRETT'S ESOPHAGUS
- LUNG CANCER
- GASTRIC CANCER
- BLADDER CANCER
- CERVICAL CANCER
- CERVICAL DYSPLASIA
- BENIGN PROSTATIC HYPERPLASIA
- AUTOIMMUNE DISEASE

1996 Achievements

- QLT & Sanofi Pharmaceuticals, Inc. announce U.S. marketing agreement for oncology.
- PHOTOFRIN® marketing launch in Japan by Lederle (Japan).
- Equity financing in Canada and the U.S. raises C$73 million (U.S. $55 million).
- France approval of PHOTOFRIN® for lung and esophageal cancer.

1997 Milestones

- File supplemental NDA for lung cancer with PHOTOFRIN® in the U.S. and Canada.
- Initiate phase I clinical trial using BPD-MA for autoimmune disease.
- Launch PHOTOFRIN® to the European market.
- Complete patient recruitment for phase III AMD trial with BPD-MA.
- Begin PHOTOFRIN® Phase III trial for Barrett's esophagus.

PHOTOFRIN® launched in U.S. for esophageal cancer by Sanofi Pharmaceuticals, Inc.

Commencement of Phase III clinical trial for AMD with BPD-MA.

QLT and Beaufour Ipsen announce European marketing and co-development agreement for oncology.

Review of supplemental NDA for lung cancer by FDA's Oncologic Drug Advisory Committee.

File PHOTOFRIN® submission in the U.K. for lung and esophageal cancer.

Commence AMD clinical trials in Japan.

Negotiate an oncology marketing alliance for Asia (excluding Japan).

Selected Financial Information

(millions, except per share and employee data)	1996		1995		1994	
	CDN.	U.S.	CDN.	U.S.	CDN.	U.S.
STATEMENT OF OPERATIONS DATA						
Total revenues	$ 13.5	$ 9.9	$ 2.5	$ 1.8	$ 3.8	$ 2.8
Royalties and fees	10.2	7.5	0.6	0.4	–	–
Interest and other income	3.3	2.4	1.9	1.4	3.8	2.8
Total expenses	18.2	13.4	17.2	12.5	18.1	13.3
Research and development expenses	11.5	8.5	12.1	8.8	13.8	10.1
Net loss	(4.7)	(3.5)	(14.7)	(10.7)	(14.3)	(10.5)
Net loss per share	(0.19)	(0.14)	(0.77)	(0.56)	(0.72)	(0.53)
BALANCE SHEET DATA						
Working capital	$104.5	$ 76.8	$ 12.3	$ 9.0	$ 24.1	$ 17.2
Total assets	112.3	82.5	22.7	16.7	37.5	26.8
Shareholders' equity	108.9	80.1	21.2	15.6	33.8	24.1
Employees	115		100		80	

FROM THE BOARD

As we look back on a remarkable year, it is important to reflect on the significance of what we have achieved.

The dedication of our management team and all our employees under the capable leadership of Dr. Julia Levy has successfully transformed QLT from a development-stage company to a commercial entity through advancements in the areas of drug development programs, financing, partnerships and regulatory approvals.

Their success in meeting the milestones set for the past year has once again raised the Company's value and attracted even greater interest from the investment community at large.

As a co-founder responsible for leading the Company's scientific strategies and as one of the key innovators of the Company's second-generation photodynamic compound, BPD-MA, Dr. Levy is acknowledged as a leader in the biotechnology industry.

The Board is confident that under her direction as CEO, the Company will build a strong position in world markets that will enable us to continue research in the photodynamic therapy field and the development of important new light-sensitive drugs for years to come.

To further ensure that we are properly positioned to meet the business challenges of the future, the Nominating Committee of the Board has nominated Ron Henriksen for election to the Board. If elected by shareholders at the Annual General Meeting, Mr. Henriksen would bring more than 25 years of experience in health care, having worked in the pharmaceutical, biotechnology, consulting and venture capital industries. Mr. Henriksen held a series of managerial and executive positions with Eli Lilly and Company. Most recently, he was the President and Chief Executive Officer of Khepri Pharmaceuticals until its merger with Arris Pharmaceuticals.

Charles J. Aschauer, Jr., who has been a Director since 1992, has decided not to stand for re-election to the Board. We would like to thank him for his valuable contribution to the guidance of the Company's affairs for the past five years.

The year ahead holds considerable promise and a new set of challenges. We have the utmost confidence in Dr. Levy, her management team, and staff as the Company continues forward.

E. Duff Scott
Chairman of the Board

DR. JULIA LEVY,
CEO + PRESIDENT

"Our future success will require a unique balance between retaining our focus on our greatest strength — our science — and managing a network of strategic partnerships which provide the infrastructure necessary to meet our commercial goals."

Letter to Shareholders

In the years since QLT became a publicly-listed company, our annual reports to shareholders have focused on our science. That was entirely appropriate, since all our resources and energies were dedicated to proving that our novel technology was a practical and effective alternative therapy for cancer and other diseases.

In 1996, QLT graduated from the ranks of the development-stage biotechnology companies with the launch of our lead product, PHOTOFRIN® . In 1997, PHOTOFRIN® will be sold as an approved therapy in the world's three largest pharmaceutical markets—the United States, Europe and Japan—and we have second and third-generation products headed toward commercialization.

Our focus in this annual report, therefore, will be on the business strategy that we have in place. That strategy is to generate revenues from royalties on product sales by our strategic partners and, ultimately, to reach profitability and to sustain positive financial performance over near-term, mid-term and long-term horizons.

Our future success will require a unique balance between retaining our focus on our greatest strength – our science – and managing a network of strategic partnerships which provide the infrastructure necessary to meet our commercial goals.

A number of events came together in 1996 resulting in a strong framework from which a co-ordinated PHOTOFRIN® marketing program could be launched. First, within two weeks of the United States Food and Drug Administration (FDA) approval for esophageal cancer, we signed a marketing agreement with Sanofi Pharmaceuticals, Inc. for the U.S. and the Caribbean. Sanofi, in turn, launched PHOTOFRIN® in the U.S. during the 4th quarter of 1996.

Second, in Japan, the Ministry of Health and Welfare agreed to reimburse patients treated with PHOTOFRIN®, thus enabling the marketing efforts to move ahead in mid-1996.

Third, we signed a licensing, co-development and marketing agreement with Speywood Pharmaceuticals Limited, a subsidiary of Beaufour Ipsen, a leading European pharmaceutical group based in France. Also in Europe, health authorities in France approved the marketing of PHOTOFRIN® as a treatment for certain lung and esophageal cancers.

We achieved a significant milestone in our development of a treatment for age-related macular degeneration (AMD) with the commencement of a multi-center Phase III clinical trial using Benzoporphyrin derivative (BPD-MA) at 20 sites throughout Canada, the U.S. and Europe. AMD is the leading cause of blindness in persons over the age of 50. Approximately 200,000 new cases are diagnosed annually, and there is currently no adequate treatment for 80% to 90% of patients. The results of a Phase I/II trial for BPD-MA as a treatment for AMD were extremely promising.

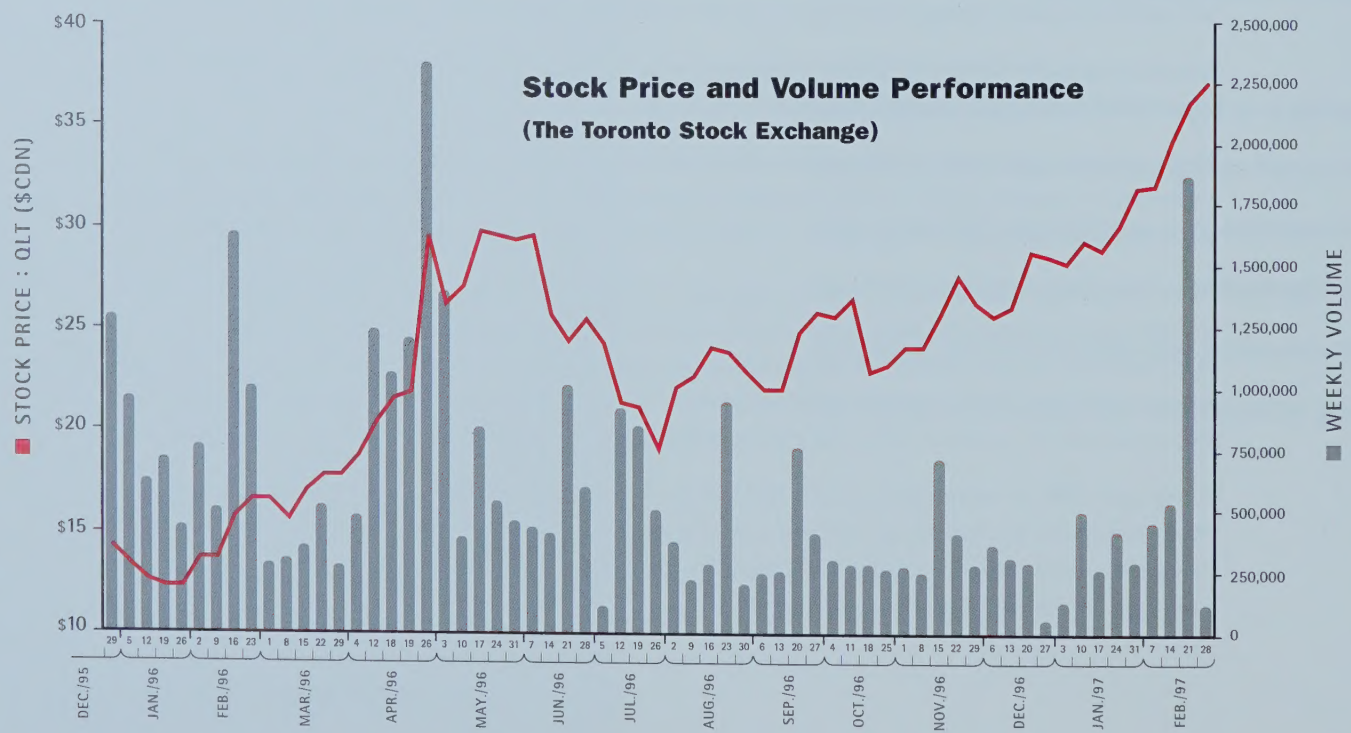
During April 1996, we raised approximately C$73 million (U.S. $55 million) from equity investors in Canada and the United States. This was one of the most successful equity financings in the biotech industry in 1996. Our strong cash position provides a significant element of stability to the Company and will enable us to aggressively pursue our business strategy in the years ahead.

From an overall financial perspective, 1996 ended in a significantly more favorable position than did 1995. Revenues from the past year totalled C$13.5 million (U.S. $9.9 million) and were mainly composed of payments from collaborative agreements, interest income and to a lesser extent, royalties from product sales. Total expenses were C$18.2 million (U.S. $13.4 million), resulting in a net loss per share of C$0.19 (U.S. $0.14), compared to a net loss per share of C$0.77 (U.S. $0.56) in 1995. Our financing success contributed to working capital of approximately $104.5 million (U.S. $76.8 million) at the end of 1996. Additional financial details can be found in the MD&A section of this annual report.

In 1997, we expect continued progress in every aspect of our business. I will mention only highlights here, as other initiatives are detailed elsewhere in this annual report.

In Europe, Beaufour Ipsen states that it expects to commence a co-ordinated PHOTOFRIN® marketing launch in 1997 in France, the Netherlands and other countries where approvals are expected to be received this year, including Italy and Germany. In addition, marketing submissions in many other European countries will be made this year for which some may receive approval in 1998.

Our plan to expand the label claim for PHOTOFRIN® took a dramatic step forward in February of 1997 when we submitted a supplemental New Drug Application (NDA) to the FDA for approval of PHOTOFRIN® as a palliative and curative treatment for specific forms of lung cancer. A similar filing will also be made in Canada by mid-year 1997. In addition, later this year, we will begin Phase III clinical trials for Barrett's esophagus, a pre-cancerous condition which afflicts approximately one million people in the U.S. and, in a subset of patients, increases their risk of developing esophageal cancer by up to 30 to 40 times.



"With a solid balance sheet, we are well-positioned to implement our near, mid and long-term business strategies."

KEN GALBRAITH
SENIOR VICE PRESIDENT
& CFO

As a co-founder of QLT, it is extremely pleasing to see our products reaching the marketplace and beginning to provide alternative therapies for patients around the world. I believe the results of a number of clinical trials indicate that our products will have an increasing impact on the treatment of cancer and other diseases in the coming years.

It is also gratifying that shareholders are seeing the benefits of the Company's progress through an increase in valuation in the investment markets. Your support over the years has provided the financial underpinning that has made our progress possible.

As we move through this transitional phase into the next stage of the Company's development—as a revenue generating and ultimately, a profitable, senior biotech company—we recognize the need for additional human resources that can offer new perspectives and expertise.

We have, therefore, created a new executive position to directly manage our expanding clinical development program. I am pleased to welcome Dr. Mohammad Azab, as QLT's new Vice-President, Clinical Research and Medical Affairs. It is Dr. Azab's responsibility to ensure that our clinical development program continues to transform innovative technology into commercial products.

In addition, because of the increasing number of marketing and development partnerships required as we expand, we are actively seeking an individual to oversee commercial operations.

There were sharp swings in sentiment to and from biotechnology stocks last year, but overall the sector performed well and a range of product approvals in the U.S. helped rebuild investor confidence. Companies, such as QLT, that met or exceeded their milestones for the year were rewarded by the equity markets with an increase in market capitalization.

The outlook for the coming year is positive. Established biotech firms are maturing quickly, investors are improving their understanding of the sector, and additional product approvals mean increased revenue from product sales.

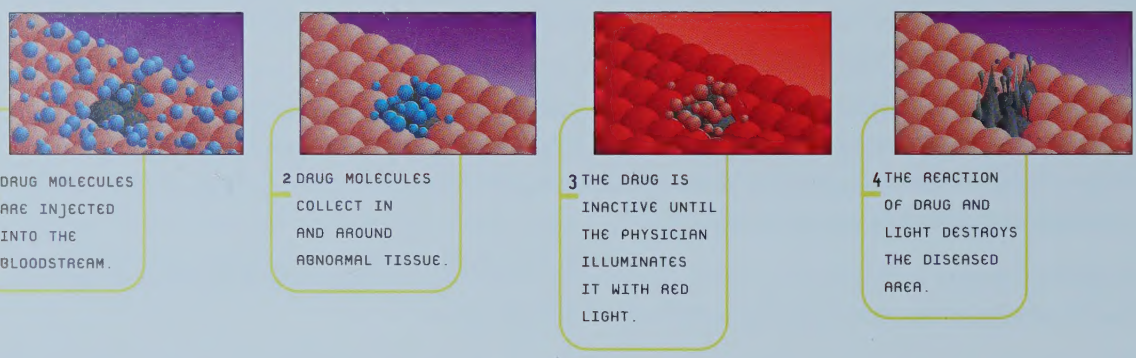
There is no doubt that biotechnology will provide the medicine of the future. In the 21st Century, it will change the way we treat disease by being less invasive and more effective. There is a long way to go, but we have made a successful start and there really is no limit to what we can achieve.

We believe that QLT will be able to capitalize on these opportunities in the years ahead.

Julia Levy, Ph.D
President and Chief Executive Officer
March 31, 1997

Photodynamic therapy is a broad technology with a wide range of possible medical applications. Potential applications for photodynamic therapy include diseases associated with rapidly-growing (hyperproliferative) tissue and abnormal blood vessels (neovasculature). QLT's lead product, PHOTOFRIN®, has been approved for the treatment of several cancers and is currently being marketed internationally. The Company's second-generation drug, Benzoporphyrin derivative, or BPD-MA, is in Phase III clinical trials for treatment of age-related macular degeneration (AMD), a leading cause of blindness in persons over the age of 50.

The Technology - Photodynamic Therapy



"QLT is the only company in any jurisdiction to have achieved regulatory approval for a light-activated drug and related devices used with photodynamic therapy."

Photodynamic therapy selectively kills or alters disease-causing cells while sparing healthy ones. Treatment is a two-step process. The photosensitive drug is first administered intravenously to the patient. This is followed by an interval during which the drug circulates and accumulates in abnormal tissue while largely clearing from surrounding normal tissue.

The drug has no apparent effect on the abnormal tissue on its own. However, when it is concentrated in the cells and the target area is exposed to a pre-calculated dose of light during the treatment procedure, the accumulated drug reacts with oxygen contained within the tissue to form a short-lived highly-active form of oxygen. This brings about oxidative reactions within the cell, resulting in cell destruction and an inflammatory response.

Lasers and a fiber optic strand are used to deliver light to a given treatment area. Lasers are used because of their convenience and the intensity of pure light that can be delivered through the fiber optic. The red non-thermal light which activates QLT's drugs does not harm tissue in which there is no drug. Two types of laser technology have been developed for use with photodynamic therapy. Current commercial applications utilize an argon-ion pumped-dye laser, while a diode laser is now used for those indications under clinical investigation.

Because photodynamic therapy minimizes damage to adjacent normal tissue, further treatment with photodynamic therapy or other modalities remains feasible.

QLT is transforming its leadership in the field of photodynamic therapy into commercial success.

NEAR TERM

focuses on the next one to two years as the Company begins to generate revenues

MID TERM

focuses on the next two to five years as the Company seeks to attain and sustain profitability

LONG TERM

focuses on the next five to ten years when today's pre-clinical successes become tomorrow's product pipeline

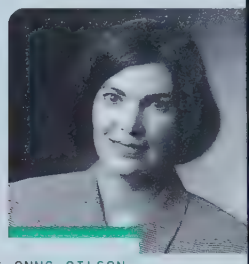
NEAR TERM

working with partners to introduce PHOTOFRIN®

to the medical community is the first step in

generating revenues

DR. ED LEVY
VICE-PRESIDENT,
CORPORATE DEVELOPMENT



LEE ANNE PILSON
VICE-PRESIDENT,
MARKETING

The Company's near-term focus is to work with its strategic partners to ensure the generation of revenues from PHOTOFRIN®. Photodynamic therapy using PHOTOFRIN® has been approved for the treatment of certain cancers in the United States, Japan, Canada, France and the Netherlands. Marketing is currently under way in the U.S., Japan and Canada and will begin in the Netherlands and France by mid-year. Other European approvals are expected in 1997 and 1998 and marketing will expand to these countries shortly thereafter. QLT's efforts to increase PHOTOFRIN®'s near-term profitability will be further advanced as a supplemental NDA is filed for the treatment of lung cancer in the U.S. and Canada this year.

Commercializing Photodynamic Therapy with PHOTOFRIN®

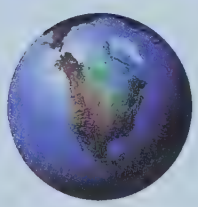
The Company is working with its marketing partners to support medical centers and physicians as photodynamic therapy is introduced as a new modality for the treatment of cancer. While the medical community is supportive of photodynamic therapy as an effective alternative in the treatment of cancer, the time it will take for this technology to become widely used will depend on the speed with which medical centers acquire the necessary laser equipment.

QLT selected its marketing partners based on their experience in introducing new technologies to their respective marketplaces and on their commitment to ensuring photodynamic therapy becomes an established treatment option.

NEAR TERM

MARKETING PHOTOFRIN® WORLDWIDE

UNITED STATES



PARTNER:
Sanofi Pharmaceuticals, Inc.

APPROVED INDICATIONS:
Esophageal cancer

LAUNCH DATE:
October, 1996

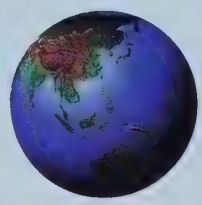
Sanofi Pharmaceuticals, Inc. is the U.S. pharmaceutical division of Sanofi, a leading international health care company based in Paris, France. Sanofi has exclusive U.S. marketing rights to PHOTOFRIN®, BPD-MA and additional light-activated drugs for the treatment of cancerous and pre-cancerous conditions. PHOTOFRIN® is the first of a line of oncology products Sanofi plans to market in the United States. Sanofi's dedicated marketing efforts include the support of 16 oncology specialists focusing exclusively on PHOTOFRIN®.

The American Cancer Society estimates that 12,500 new cases of esophageal cancer will be diagnosed in the U.S. in 1997, and that 11,500 deaths will occur during the year as a result of the disease. Difficulty in detecting the disease means 75% to 80% of patients are incurable by the time they are diagnosed and require some type of palliative treatment (symptom relief).

The agreement between QLT and Sanofi included up to U.S.$10 million in access fees and equity investments and U.S.$16.5 million in milestone fees, as well as product royalties to QLT and reimbursement for manufacturing costs.

At year end, more than 30 centers in the U.S. were performing photodynamic therapy with PHOTOFRIN®, and the number is expected to increase to approximately 75 by the end of 1997.

JAPAN



PARTNER:
Lederle (Japan) Ltd.

APPROVED INDICATIONS:
Lung cancer, Esophageal cancer, Gastric cancer, Cervical cancer, and Cervical dysplasia

LAUNCH DATE:
May, 1996

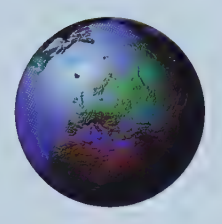
Lederle (Japan) Ltd., the third largest U.S. based pharmaceutical firm in the country, is a joint venture between American Home Products Corporation and Takeda Chemical Industries Ltd., Japan's leading pharmaceutical company. American Home Products is one of the world's largest research-based pharmaceutical and health care product companies and a leading developer, manufacturer and marketer of prescription and over-the-counter medications.

Given the broad range of approvals PHOTOFRIN® has been granted in Japan, the potential market size exceeds 200,000 patients.

The decision in April, 1996 by the Ministry of Health and Welfare to reimburse patients treated with PHOTOFRIN® has allowed Lederle (Japan)'s marketing efforts to move ahead. Monthly sales volumes of PHOTOFRIN® following reimbursement approval increased more than two-fold relative to the six-month period prior to reimbursement. By the end of 1996, 10 hospitals in Japan had photodynamic therapy lasers and the number of sites where photodynamic therapy can be performed is expected to increase significantly in 1997, leading to increased PHOTOFRIN® sales.

The profile of photodynamic therapy with PHOTOFRIN® in Japan was further enhanced in March, 1997 at an international symposium. The symposium, sponsored by the Tokyo Medical College, was entitled *New Strategies in Cancer Treatment—Photodynamic Therapy* and attended by more than 240 key physicians from Japan. Research presented at the symposium underscored the promising results that have been achieved with photodynamic therapy using PHOTOFRIN® in the treatment of a broad range of cancers.

EUROPE



PARTNER:
Beaufour Ipsen

APPROVED INDICATIONS IN FRANCE AND THE NETHERLANDS:
Lung cancer, Esophageal cancer

LAUNCH DATE:
Mid-1997 (projected)

Beaufour Ipsen is a leading, privately-owned European pharmaceutical company, headquartered in Paris with subsidiaries throughout Europe and the United States. The company employs 3,000 people worldwide, including a European sales force of 700. It specializes in high technology and biotechnology products, particularly those for use in oncology, endocrinology, neurobiology and intensive care medicine.

According to the World Health Organization's International Association for the Research of Cancer, there were an estimated 18,000 new cases of esophageal cancer and 142,500 new cases of lung cancer in France, Italy, Germany, the U.K. and the Netherlands during 1996.

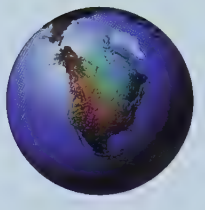
Under terms of the agreement with QLT, Beaufour Ipsen undertook to pay U.S. $28 million in access fees, milestone payments and research and development funds to acquire exclusive European marketing and distribution rights to PHOTOFRIN® and BPD-MA for use in the treatment of cancerous and pre-cancerous conditions, as well as benign prostatic hyperplasia.

Beaufour Ipsen also agreed to purchase QLT common shares for a total of U.S.$5 million, and received a warrant to purchase additional common shares worth U.S.$5 million within three years.

Beaufour Ipsen is currently training its sales personnel and establishing marketing plans and strategies for product launches expected in the second and third quarters of 1997 in certain European countries.

In addition to marketing, this new alliance will aid registration and subsequent label expansion for PHOTOFRIN® throughout Europe. Developments expected in the coming year include PHOTOFRIN® approvals in Germany and Italy, a filing for approval in the U.K., the reactivation of filings in a number of other European countries, and the start of PHOTOFRIN® trials in Europe to support filings for additional indications.

CANADA



PARTNER:
Ligand Pharmaceuticals Inc.

APPROVED INDICATIONS:
Superficial Bladder cancer, Esophageal cancer

LAUNCH DATE:
July, 1995

San Diego-based Ligand Pharmaceuticals Inc. is a leader in gene transcription technology. Ligand was selected as QLT's Canadian marketing partner because of expertise in the oncology field and a commitment to launching innovative and effective products in the Canadian cancer drug market.

Approximately 1,200 new cases of esophageal cancer and 3,500 new cases of superficial bladder cancer are diagnosed annually in Canada.

QLT has a 10-year agreement, signed in 1995, giving Ligand Pharmaceuticals Inc. the exclusive rights in Canada to market and sell PHOTOFRIN®.

Sales revenue potential in Canada is small compared with QLT's other approved markets. Performance in Canada, however, has been slower than expected due to several market impacts. Provincial government reimbursement of PHOTOFRIN® has been the primary reason for the slow market penetration. Small inroads were achieved this year when full reimbursement was granted in Quebec, the second largest Canadian province. In addition to provincial government reimbursement, Ligand is focusing its efforts on getting PHOTOFRIN® listed on private drug plans and building additional advocates in cities where key laser sites are located.

DEVICE AND MANUFACTURING PARTNERS

QLT's partnerships with leading medical device companies and contract drug manufacturers are critical components of its core business activities. The Company has negotiated worldwide agreements for the development, manufacture and distribution of medical devices for the emerging market in photodynamic therapy with the leading manufacturers and suppliers of these devices, Laserscope and Coherent. QLT and its current device alliance partners are the only companies to have these medical devices approved for use with photodynamic therapy in the United States. The Company has also decided to manufacture PHOTOFRIN® and BPD-MA using contract pharmaceutical manufacturers as opposed to building its own manufacturing plant.

Coherent Inc.

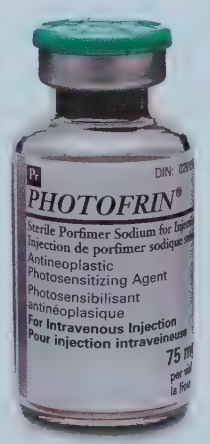
Coherent Inc. is a leader in the design and development of lasers and related systems for medical and scientific applications in markets worldwide. Coherent and QLT have an agreement to develop, manufacture and distribute medical devices for use in photodynamic therapy. The two companies also cooperate in developing marketing and educational programs for photodynamic therapy with PHOTOFRIN® or BPD-MA. At present, Coherent's Lambda Plus PDL1 and PDL2 is used to activate PHOTOFRIN®, while Coherent's solid state diode laser is being used in the phase III AMD trial.

Laserscope

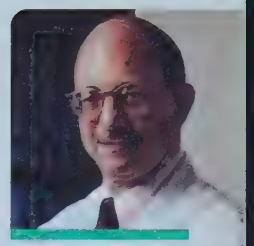
Laserscope manufactures the most powerful light sources developed to date specifically for photodynamic therapy applications. The company is a leading provider of innovative medical products and services for the hospital, outpatient surgical center, and physician office markets. Laserscope has agreed to develop, manufacture and distribute medical devices for photodynamic therapy with PHOTOFRIN® or BPD-MA. Laserscope's laser systems were specified in QLT's submissions to the U.S. FDA and will also be specified in other countries where required. At present, PHOTOFRIN® is activated by Laserscope's KTP/532® and KTP/YAG™ surgical lasers pumping a model 630 or 630XP PDT Dye module.

American Home Products Corporation

American Home Products Corporation currently manufactures PHOTOFRIN® at its plant in Carolina, Puerto Rico. QLT is actively seeking a secondary supplier for PHOTOFRIN® as well as evaluating potential manufacturing sites for the eventual commercial production of BPD-MA.



"Photodynamic therapy with PHOTOFRIN® is a new modality for the treatment of cancer. It is a useful palliative tool in the treatment of advanced-stage disease, but its most exciting potential is for treating and curing early-stage disease."



DR. CHARLES LIGHTDALE
PRESBYTERIAN MEDICAL
CENTER, NEW YORK

NEAR-TERM EXPANSION OF THE PHOTOFRIN® LABEL

In addition to marketing the approved indications for photodynamic therapy using PHOTOFRIN® in the world's major pharmaceutical markets, QLT is working to increase the approved indications in each of these markets.

In the U.S., the Company has filed a supplemental New Drug Application (NDA) with the Food and Drug Administration (FDA) for approval to market photodynamic therapy using PHOTOFRIN® as a treatment for lung cancer.

The need for new ways to deal with this disease is emphasized by the following statistics. Last year, an estimated 177,000 Americans were diagnosed with lung cancer—nearly 15% of all new cancer cases. While 41% of patients survive the first year following diagnosis, the five-year survival rate is only 13%.

Current treatment includes surgery to remove diseased tissue, radiation therapy and chemotherapy. However, there is no effective cure for lung cancer and most treatments are aimed at relieving symptoms or prolonging the life of patients.

The supplemental NDA, consisting of data from over 650 patients, seeks approval for reduction of obstruction and palliation of symptoms in patients with obstructing endobronchial non-small cell lung cancer (NSCLC) and also for the treatment of endobronchial carcinoma in situ or microinvasive NSCLC in patients for whom surgery and radiotherapy are not indicated.

In clinical trials involving palliative care patients, photodynamic therapy with PHOTOFRIN® was compared to Nd:YAG laser therapy. Results at week one showed that for both tumor response (a visible absence or reduction in tumor size) and symptomatic relief, the effectiveness of the two modalities was similar. Where the results differed however, was in terms of durability of response. When patients were examined after one month, the percentage of PHOTOFRIN® treated patients with a tumor response was significantly higher than those treated with Nd: YAG.

In trials involving patients with early-stage disease, complete response rates (tumor eradication) were found in over 90% of patients who were not candidates for surgery or radiation. In patients who experienced a recurrence and were subsequently retreated with photodynamic therapy with PHOTOFRIN®, response rates of 100% were found. Survival rates were found to be comparable to surgery.

Unlike current therapies such as surgery and radiation, photodynamic therapy with PHOTOFRIN® offers a low risk of damage to adjacent normal bronchial tissue thereby allowing for retreatment or the use of other modalities, if required. Also, for patients with poor lung function, photodynamic therapy provides a therapy which spares functional tissue.

Following preliminary review by the FDA, the supplemental NDA will be evaluated by the Oncologic Drug Advisory Committee (ODAC), comprising medical specialists and other experts appointed from outside the FDA to review submissions and make recommendations.

Other marketing submissions

An application will also be made in 1997 to the Health Protection Branch in Canada for the approval of photodynamic therapy with PHOTOFRIN® for the treatment of specific types of lung cancer.

In the coming year, there will also be a filing for the approval of PHOTOFRIN® in the U.K. for lung and esophageal cancer, and the reactivation of a number of filings in various European countries.

QLT is developing new

applications for photodynamic therapy to

sustain profitability

ALEXANDRA MANCINI
VICE-PRESIDENT,
REGULATORY AFFAIRS

DR. MOHAMMAD AZAB
VICE-PRESIDENT,
CLINICAL RESEARCH
& MEDICAL AFFAIRS

During 1997, QLT will undertake a number of initiatives which should help the Company achieve its goal of attaining and sustaining profitability over the next two to five years. These initiatives include completing patient recruitment for an age-related macular degeneration (AMD) Phase III clinical trial using the Company's second-generation product, BPD-MA, and initiating two other Phase III trials using PHOTOFRIN® to treat Barrett's esophagus and head and neck cancer. In addition, QLT will begin a Phase II study of BPD-MA for the treatment of a pre-cancerous condition. Further, the Company will continue to pursue its global marketing strategy by selecting an oncology marketing partner for Asia (excluding Japan), the results of which will impact the Company over the mid-term.

Developing New Applications

AGE-RELATED MACULAR DEGENERATION (AMD)

AMD is the leading cause of blindness in persons over the age of 50. QLT estimates that approximately 2.5 million people in developed countries suffer from the severe, or "wet", form of the disease. Approximately 200,000 new cases are diagnosed annually.

AMD causes damage to or scarring of the macula, the light-sensitive membrane coating the back of the eye which accounts for the best-seeing "20/20" area of the retina. With the "wet" form of this disease, abnormal blood vessels can grow and bleed underneath the macula causing scarring of the macular structures. AMD progressively impairs central vision and often leads to blindness.

No effective treatment is currently available for AMD. In a small percentage of patients with "wet" AMD, particularly in those with very small lesions in the macula or whose lesions are outside the macula, conventional laser treatment may prevent or lessen severe loss of sight if the abnormal blood vessels are detected at the onset of the disease. The heat from the laser light destroys the abnormal blood vessels but causes immediate scarring, often resulting in vision loss.

Results of Phase I/II clinical trials, which evaluated BPD-MA for the treatment of AMD, were released early in 1996. They showed that a single treatment with BPD-MA resulted in partial or complete closure of diseased blood vessels associated with AMD and no loss in visual acuity. Further data derived from the Phase I/II trials, to be presented in 1997, confirms the safety of retreatment and establishes the optimum dosage regimen.

As with PHOTOFRIN®, BPD-MA is administered intravenously and accumulates in the abnormal blood vessels associated with AMD. The drug has no apparent effect until it is activated by light from a non-thermal laser which results in a reaction causing the occlusion of the leaking blood vessels and halting the deterioration of vision.

DR. MICHAEL POTTER TREATS A PATIENT WITH BPD-MA FOR AMD, AS PART OF A PHASE III CLINICAL TRIAL.

A Phase III clinical trial is under way to confirm Phase II results and determine the extent of retreatment required in a larger patient sample. By mid-year, approximately 500 patients should be enrolled in the Phase III trial at 20 clinical sites in the United States, Europe and Canada. The study is both double-masked and placebo-controlled. Eligibility requirements include patients with AMD over the age of 50 and visual acuity between 20/40 and 20/200. Since patients are followed for 12 months, if the last patient is recruited mid-1997, the data will be available for unmasking mid-1998. QLT plans to complete regulatory submissions in late 1998 for a possible approval and subsequent launch by the end of 1999.

Clinical trials for the treatment of AMD with BPD-MA will begin in Japan in 1997.

A second Phase III trial in North America and Europe is planned for 1997 utilizing BPD-MA for the treatment of myopic macular degeneration. Myopic macular degeneration is a condition similar to AMD although it affects individuals 20 to 30 years younger and progresses at a slower rate.

Partner: CIBA Vision

QLT has established a partnership with CIBA Vision to jointly pursue worldwide development and commercialization of photodynamic therapy as a treatment for eye disease.

Headquartered in Atlanta, Georgia, USA, CIBA Vision is a worldwide leader in research, development and manufacturing of optical and ophthalmic products and services, including contact lenses, lens care products, and ophthalmic pharmaceuticals. CIBA Vision is a member of the healthcare division of Novartis, the world's leading life sciences company with core businesses in healthcare, agribusiness and nutrition. CIBA Vision has operations in more than 60 countries.

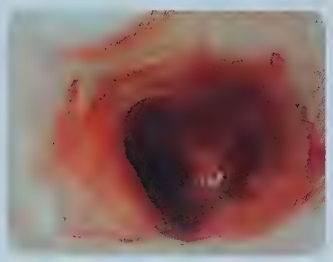
Under the terms of the agreement, CIBA Vision will fund 60% of the development costs, and QLT the remaining 40% while profits will be shared on an equal basis.

BARRETT'S ESOPHAGUS

Barrett's esophagus is a pre-cancerous condition affecting approximately one million people in the U.S. each year. The esophageal lining actually converts to stomach-type tissue as a defense mechanism to chronic acid reflux (heartburn). Although the symptoms of Barrett's esophagus are the same as those of acid reflux, some patients with a severe form of the disease have a 30 to 40 times higher risk of developing esophageal cancer than people without the affliction.

Symptoms can generally be treated with a variety of acid suppressants. However, no treatment exists that can reverse the condition to decrease the risk of progression to carcinoma. For those patients who have advanced Barrett's esophagus (high-grade dysplasia), an esophagectomy is currently their only recourse.

SPECIALLY-DESIGNED BALLOON CATHETER USED FOR TREATING BARRETT'S ESOPHAGUS WITH PHOTODYNAMIC THERAPY.



ESOPHAGUS BEFORE TREATMENT: RED AREA INDICATES THE PRESENCE OF BARRETT'S ESOPHAGUS

ESOPHAGUS AFTER TREATMENT: 3 MONTHS POST TREATMENT WITH PHOTODYNAMIC THERAPY USING PHOTOFRIN®

Phase II clinical trials have shown that in patients treated with photodynamic therapy using PHOTOFRIN®, the esophageal tissue actually reverts back to normal following treatment. Phase II clinical trials showed that a single photodynamic therapy treatment with PHOTOFRIN® can eliminate Barrett's esophagus completely in up to 80% of patients.

When treating Barrett's esophagus, photodynamic therapy is normally performed as an outpatient procedure. As in the treatment of cancer, PHOTOFRIN® is first administered intravenously. Approximately 48 hours later, the sedated patient receives an endoscopic procedure to place the fiber optic into the diseased area. The physician then turns on the laser to administer the required dose of non-thermal light, a procedure that normally lasts less than 15 minutes.

The treatment of Barrett's with photodynamic therapy using PHOTOFRIN® or BPD-MA requires a specially-designed balloon catheter. The balloon smooths the treatment surface and facilitates the even distribution of light. Without it, the esophagus wall would crease resulting in an uneven treatment area.

Apart from promising clinical results, Barrett's esophagus is a natural progression on which QLT can build from the approval of PHOTOFRIN® for the treatment of esophageal cancer. As the number of detected cases of Barrett's esophagus grows, so does the demand for a minimally-invasive therapy, such as photodynamic therapy, with lower risks, patient trauma and costs than surgery. A Phase III clinical trial using PHOTOFRIN® is expected to begin in North America and Europe in the third quarter of 1997. This trial will include those patients with high-grade dysplasia or early adenocarcinoma. QLT is currently investigating the use of BPD-MA for earlier stage Barrett's esophagus and will likely initiate Phase I/II trials for those patients with metaplasia in 1997.

HEAD AND NECK CANCER

Phase III clinical trials for treatment of a specific form of head and neck cancer will be initiated in 1997.

Head and neck cancers include a wide range of cancers, the most significant occurring in the mouth, nose, throat and larynx.

The American Association of Cancer Research estimates that 50,000 new cases of head and neck cancer were diagnosed in the U.S. in 1996. Nearly all patients diagnosed with head and neck cancer are smokers and a significant number are heavy consumers of alcohol. The disease generally afflicts people who are over the age of 50. The survival rate of patients diagnosed with head and neck cancers is about 60% and remains unchanged for the last 10 years.

The most common current treatments are surgery and radiation therapy, depending on the stage of the disease. The often devastating physical and psychological results of surgery underscore the need for new therapies.

QLT met with the FDA in September 1996 to discuss the suitability of results from Company-sponsored and investigator clinical trials to support a potential supplemental NDA for head and neck cancers, brain tumors and Kaposi's sarcoma. It was determined that existing data for head and neck cancer could constitute one of the key trials required for a submission. An additional clinical trial would be required for which the FDA would have to approve the protocol. To this end, QLT will initiate a Phase III trial with PHOTOFRIN® in 1997 for the treatment of head and neck cancer, the specific type yet to be determined.

QLT's commitment to a focused

research and development

program will ensure continued success

LONG TERM

DR. DAVID DOLPHIN
VICE-PRESIDENT,
TECHNOLOGY DEVELOPMENT

QLT's research and development focus is to ensure that today's most promising pre-clinical results are developed into new approved applications for the Company's photosensitive compounds over the next five to ten years. Pre-clinical research has shown there is considerable potential to apply the use of photodynamic therapy to a wide range of novel disease areas.

Future Applications

OPHTHALMOLOGY

In addition to age-related macular degeneration, QLT and CIBA Vision are evaluating the use of photodynamic therapy to treat other ophthalmic conditions involving choroidal neovascularization. Other diseases being considered for photodynamic therapy include glaucoma, secondary cataracts and diabetic retinopathy, a condition caused by diabetes.

IMMUNE MODULATION

The Company has achieved promising results in pre-clinical research using photodynamic therapy as a treatment for various autoimmune diseases such as rheumatoid arthritis, skin allergies, transplant rejection and multiple sclerosis. QLT has shown photodynamic therapy can selectively down-regulate activated cells of the immune system—those cells that play a fundamental role in immune system disorders. In rheumatoid arthritis, for example, activated cells of the immune system grow rapidly in the joints causing inflammation, joint enlargement and pain. This is an extremely debilitating condition which affects more than 1% of the world's population. As current treatments are generally unsatisfactory, QLT's pre-clinical data showing prevention of development and of the most severe symptoms of rheumatoid arthritis are very promising. Early phase clinical trials in immune modulation will involve the use of BPD-MA. Once a clinical benefit in humans is established, subsequent research will involve a third-generation photodynamic compound currently under development. A Phase I clinical trial to treat psoriatic arthritis was initiated in the first quarter of 1997.

PRODUCT PIPELINE

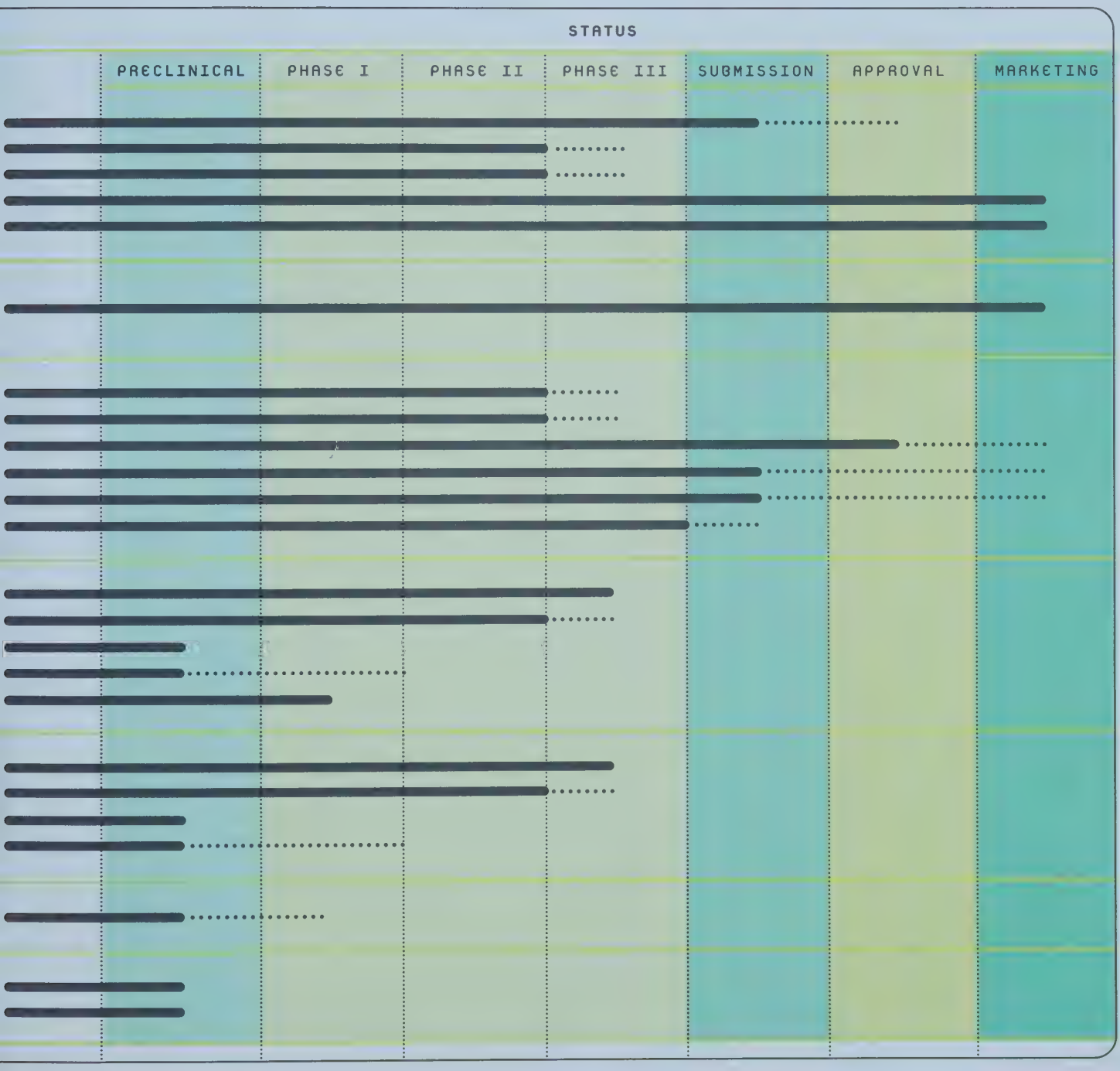
A number of photosensitive compounds relating to BPD-MA are currently under development at QLT. New generation products with characteristics suited to new applications will be introduced accordingly.

Product Pipeline

AS OF MARCH 31, 1997

SHOWS PROJECTED STATUS @ DEC. 31, 1997

PRODUCT:	JURISDICTION:	INDICATION(S):
PHOTOFRIN®	NORTH AMERICA	LUNG CANCER HEAD & NECK CANCER BARRETT'S ESOPHAGUS
	UNITED STATES	ESOPHAGEAL CANCER
	CANADA	ESOPHAGEAL & BLADDER CANCER
	JAPAN	ESOPHAGEAL, LUNG, GASTRIC, CERVICAL CANCER & CERVICAL DYSPLASIA
	EUROPE	HEAD & NECK CANCER BARRETT'S ESOPHAGUS
	FRANCE & THE NETHERLANDS	LUNG & ESOPHAGEAL CANCER
	GERMANY	LUNG CANCER
	ITALY	LUNG & ESOPHAGEAL CANCER
	SELECTED EUROPEAN COUNTRIES	LUNG & ESOPHAGEAL CANCER
BPD-MA	NORTH AMERICA	AGE-RELATED MACULAR DEGENERATION MYOPIC MACULAR DEGENERATION OTHER OPHTHALMOLOGY BARRETT'S ESOPHAGUS IMMUNE MODULATION
	EUROPE	AGE-RELATED MACULAR DEGENERATION MYOPIC MACULAR DEGENERATION OTHER OPHTHALMOLOGY BARRETT'S ESOPHAGUS
	JAPAN	AGE-RELATED MACULAR DEGENERATION
THIRD-GENERATION PHOTOSENSITIZERS		IMMUNE MODULATION OTHER CANCER INDICATIONS


STATUS
PRECLINICAL
PHASE I
PHASE II
PHASE III
SUBMISSION
APPROVAL
MARKETING

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the audited consolidated financial statements and related notes included herein which are prepared in accordance with Canadian GAAP. For a description of the material differences between Canadian GAAP and U.S. GAAP with respect to the Company's results of operations, see Note 11 to the audited consolidated financial statements. Certain statements in this Annual Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, risks associated with the commercialization of PHOTOFRIN® and BPD; uncertainties relating to product development; the Company's history of operating losses and uncertainty of future profitability; uncertainty of access to additional capital; rapid technological change and competition; uncertainty regarding patents and proprietary rights; product liability claims and insurance; manufacturing uncertainties; anti-takeover provisions; uncertainty of pricing and reimbursement; no assurance of regulatory approval; government regulation; volatility of common share price and dependence on corporate relationships. Forward-looking statements can be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," or "anticipates," or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy or intentions.

OVERVIEW

Since its inception in 1981, the Company has been engaged primarily in the research and development of proprietary pharmaceutical products and only recently has generated initial revenues from the commercial sale of such products. The Company has not earned any profits since its inception and may incur additional operating losses over the next several years due to continued requirements for research and development, preclinical and clinical testing and regulatory activities and until further marketing approvals for PHOTOFRIN® are obtained and significant sales realized.

RESULTS OF OPERATIONS

For the fiscal year ended December 31, 1996, the Company recorded a net loss of $4,697,659 or $0.19 per common share. These results compare with a net loss of $14,689,691, or $0.77 per common share, for the fiscal year ended December 31, 1995 and a net loss of $14,275,684, or $0.72 per common share, for the fiscal year ended December 31, 1994. The results of operations for the fiscal years-ended December 31, 1996 and 1995 were generally in line with management's expectations, except as described below.

REVENUES

Interest and other income for the fiscal year ended December 31, 1996, increased by 73% compared to levels in 1995 due primarily to increasing cash balances during 1996 resulting from an equity offering completed by the Company in April, 1996. Interest and other income for the fiscal year ended December 31, 1995 decreased by 8% compared to levels in 1994 due to decreasing cash balances and interest yields. The Company expects that interest and other income will continue to fluctuate in relation to cash balances and interest yields. See "Liquidity and Capital Resources."

The Company's distribution partners commenced commercial sales in Japan in April, 1995, in Canada in July, 1995, and in the United States in October, 1996. In addition, the Company became entitled to certain licensing fees in 1995 and 1996 in connection with the terms of marketing and distribution agreements with Ligand, Sanofi and Beaufour Ipsen. In 1996, the Company earned and recorded as revenue a US$2 million access fee from Beaufour Ipsen which was paid in 1996 and a US$5 million access fee from Sanofi which was paid subsequent to the end of 1996. The Company expects to receive additional licensing fees in 1997 from existing and new partnership arrangements. The extent and timing of such additional licensing fees, if any, will be dependent upon the overall structure of each proposed agreement, including the distribution of profits from product sales.

As the Company had received product approvals for PHOTOFRIN® in Canada in 1993 and in the Netherlands and Japan in 1994, the Company expected that sales revenue from PHOTOFRIN® would initially be recorded in 1994. However, due to delays in product supply in Europe, delays in regulatory and pricing approvals in Japan and the finalization of new marketing and distribution arrangements in Canada, no product sales were recorded in 1994. In 1996, the Company finalized a marketing arrangement with Beaufour Ipsen to replace American Home as the Company's distributor for PHOTOFRIN® in Europe. The Company currently is evaluating alternatives for new marketing arrangements in Asia (excluding Japan) to replace American Home as the Company's distributor in these countries.

The level of PHOTOFRIN® sales may be affected during 1997 and thereafter by uncertainty of the price reimbursement structure for PHOTOFRIN®, the timing of a new marketing and distribution agreement in Asia (excluding Japan), the ability to expedite product launches for PHOTOFRIN® in Europe following receipt of regulatory approvals, sufficient product supply being made available by American Home and the placement of additional medical lasers in key jurisdictions.

During the fiscal year ended December 31, 1994, the Company recorded a gain of $1,690,469 from the renegotiation of an agreement with American Home. There was no such corresponding item in 1995 or 1996.

The extent of cash flow provided to the Company from the sale of PHOTOFRIN® is dependent upon the marketing performance of Sanofi, Beaufour Ipsen, Lederle (Japan), Ligand, and other marketing and distribution partners. Under the Company's agreements with its marketing partners except Lederle (Japan), the Company is entitled to a royalty on product sales and a transfer price computed as a reimbursement of manufacturing costs. Under the terms of the Company's agreement with Lederle (Japan), Lederle (Japan) has responsibility for final decisions related to the marketing and sale of PHOTOFRIN® in Japan, including a determination of the appropriate level of marketing effort. The Company will receive between 26% and 29.5% of product sales of PHOTOFRIN® in Japan. Lederle (Japan) is responsible for marketing and distribution costs and manufacturing costs and the Company is responsible for payment of third-party royalties.

COSTS AND EXPENSES

Total costs and expenses for the fiscal year ended December 31, 1996 increased by 6% from the same period in 1995. Total costs and expenses for the fiscal year ended December 31, 1995 decreased by approximately 5% from the same period in 1994 due to the adoption of an expenditure reduction program introduced in February, 1995.

Research and Development Costs

Research and development costs decreased by approximately 5% in 1996 compared to 1995. The Company originally expected that research and development costs in 1996 would be approximately the same as the 1995 fiscal year. Research and development costs decreased by approximately 13% in 1995 compared to 1994 due primarily to an expenditure reduction program introduced in February, 1995.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On February 6, 1995, the Company signed an agreement with CIBA Vision to pursue worldwide joint development of BPD as a potential treatment for certain eye diseases. Under the terms of that agreement, the Company will be responsible for 40% of research and development costs for BPD and CIBA Vision will be responsible for the remaining 60% of BPD. Revenues realized from product sales will be shared on an equal basis by the Company and CIBA Vision after deductions for marketing costs, manufacturing costs and third-party royalties.

Under the Company's new agreement with Beaufour Ipsen, commencing in 1997, Beaufour Ipsen will fund research and development efforts for oncology in Europe up to US$15 million. In excess of US$15 million, the Company and Beaufour Ipsen will share such costs on an equal basis.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses for the fiscal year ended December 31, 1996 were 39% higher than in 1995. The increase relates primarily to the costs of increased corporate development activities relating to the formation of new strategic alliances and pre-marketing activities for PHOTOFRIN®. Previously, the Company expected that selling, general and administrative expenses would be approximately 15% greater than for the 1995 fiscal year. Total selling, general and administrative expenses for 1995 were 38% higher than in 1994. The increase relates primarily to the costs of recruiting additional personnel and increased corporate development activities.

Amortization Expense

Amortization expense relates to the amortization of capital assets and patents, licenses and rights. Amortization expense for the fiscal year ended December 31, 1996 was approximately 12% higher than the amount recorded in 1995. Amortization expense for 1995 was approximately the same as the amount recorded in 1994.

Effect of Inflation

The Company does not believe that inflation has a significant effect on its business.

LIQUIDITY AND CAPITAL RESOURCES

Since inception the Company has financed product development, operations and capital expenditures primarily from public and private sales of equity securities and funding arrangements with strategic partners.

Cash and cash equivalents and both short-term and long-term investment securities increased by approximately $81.1 million during the year ended December 31, 1996. The increase was due to the proceeds received from the issuance of common shares in a public offering ($68.1 million), proceeds from the issuance of preference shares and common shares pursuant to strategic partnership arrangements ($13.6 million) and the exercise of employees' and directors' stock options ($10.6 million). The increase was offset partially by the funding of the Company's operating deficit and changes in working capital ($9.7 million) and capital expenditures relating mainly to additional computer, office and scientific equipment ($1.6 million). The Company expects the level of capital expenditures for 1997 to be approximately the same as in 1996.

During 1996, the Company issued 1,180,453 common shares to American Home upon conversion of 500,000 series "C" First Preference Shares and unpaid accrued cumulative dividends of $1,365,483.

The approval of PHOTOFRIN® in Canada on April 20, 1993 triggered certain additional payments to several unrelated third parties with respect to the Company's acquisition of the rights to PHOTOFRIN® in 1987. On June 19, 1993, the Company issued 231,589 common shares with a market value of US$2,000,000 to a group of former licensees of PHOTOFRIN® as a component of the acquisition cost. This issuance of Common Shares reduced non-current liabilities by $2,532,500 (US$2,000,000), being the obligation originally recorded in 1987. In addition, the Company made a payment to Johnson & Johnson of US$250,000 on April 19, 1994 and made a further payment of US$500,000 on April 19, 1995. Additional payments to Johnson & Johnson commenced on April 19, 1996 and will be required annually thereafter based on the level of PHOTOFRIN® sales, but in no event will annual payments exceed US$500,000 nor will cumulative payments exceed US$4,200,000.

As of December 31, 1996, the Company had no long-term obligations.

As of December 31, 1996, the Company had total cash reserves of approximately $97 million invested in short-term, high-grade investment securities. Investments with maturities in excess of ninety days but less than one year are presented in the balance sheet as short-term investment securities. Investments with maturities in excess of one year are presented in the balance sheet as long-term investment securities. The Company believes that its current cash reserves and working capital should be sufficient to satisfy the cash requirements of product development programs and the repayment of obligations to Johnson & Johnson, for approximately the next five years. The Company expects to continue to receive cash flow from its share of the product sales of PHOTOFRIN® in 1997 based on continued marketing efforts in Japan, Canada and the United States and the intended commercial launch in Europe. The Company expects to receive sales revenue in the future from other jurisdictions if regulatory approvals are received and, where appropriate, as marketing and distribution arrangements are established in each jurisdiction to allow commercial launches of PHOTOFRIN®. Depending on the structure of future strategic alliances, the Company may have additional capital requirements related to the marketing and distribution of PHOTOFRIN® and BPD.

The Company expects that it may require additional capital in the future to fund clinical and product development costs for certain photodynamic therapy product applications, including the costs associated with conducting clinical trials of BPD for the treatment of ophthalmic indications including AMD. Accordingly, the Company anticipates funding research and development activities from a combination of sources, including product licensing, joint ventures and other financing arrangements. In addition, the Company may issue debt or equity securities in the future if it determines that additional cash resources could be obtained under favorable financial market conditions, or if future development funding requirements cannot be satisfied with available cash resources. No assurance can be given that additional funding will be available or, if available, on terms acceptable to the Company. If adequate capital is unavailable, the Company may have to reduce substantially or eliminate expenditures for research, development, clinical testing, manufacturing and marketing for certain photodynamic therapy applications.

MANAGEMENT REPORT

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements may include amounts which are based on the best estimates and judgements of management.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The functions of the Audit Committee are to review the quarterly and annual consolidated financial statements, review the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters and recommend the appointment of external auditors. The Audit Committee meets on a quarterly basis with management and the external auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

The external auditors, Deloitte & Touche, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the consolidated financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with generally accepted accounting principles in Canada. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

JULIA G. LEVY
President and Chief Executive Officer

KENNETH H. GALBRAITH
Senior Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
QLT PHOTOTHERAPEUTICS INC.

We have audited the consolidated balance sheets of QLT PhotoTherapeutics Inc. as at December 31, 1996 and 1995 and the consolidated statements of operations, cash flows and changes in shareholders' equity for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and cash flows for each of the years in the three year period ended December 31, 1996 in accordance with accounting principles generally accepted in Canada consistently applied.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants
Vancouver, Canada
February 7, 1997

CONSOLIDATED BALANCE SHEETS

As at December 31, (Expressed in Canadian Dollars)	1996	1995
ASSETS		
Current assets		
Cash and cash equivalents	$ 43,187,052	$ 11,363,889
Short-term investment securities	53,963,521	398,144
Receivables, inventories and prepaid expenses (Note 2)	10,673,781	1,999,084
	107,824,354	13,761,117
Long-term investment securities	—	4,294,938
Capital assets (Note 3)	2,708,313	2,296,143
Intangible assets (Note 4)	1,661,865	2,325,549
	$ 112,194,532	$ 22,677,747
LIABILITIES		
Current liabilities (Note 5)	$ 3,337,969	$ 1,483,968
SHAREHOLDERS' EQUITY		
Share capital (Note 7)		
Authorized:		
100,000,000 common shares without par value		
5,000,000 first preference shares without par value, issuable in series		
Issued and outstanding:		
Common shares		
December 31, 1996—25,917,055		
December 31, 1995—19,996,339	201,977,739	109,201,813
First preference shares		
December 31, 1996—368,069		
December 31, 1995—500,000	6,850,000	5,900,000
Accumulated deficit	(99,971,176)	(93,908,034)
	108,856,563	21,193,779
	$ 112,194,532	$ 22,677,747

Approved by the Board:

E.D. SCOTT
Director

J. G. LEVY
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31, (Expressed in Canadian Dollars)	1996	1995	1994
Revenues			
Revenue from collaborative arrangements (Note 6)	$ 9,500,000	$ 250,000	$ –
Royalties on product sales	668,871	358,396	–
Interest and other income	3,327,662	1,922,587	2,085,092
Recovery on renegotiation of agreement (Note 6(a)(ii))	–	–	1,690,469
	13,496,533	2,530,983	3,775,561
Costs and expenses			
Research and development	11,480,320	12,067,978	13,846,415
Selling, general and administrative	4,846,823	3,492,825	2,529,939
Amortization	1,867,049	1,659,871	1,674,891
	18,194,192	17,220,674	18,051,245
Net loss	$ (4,697,659)	$ (14,689,691)	$ (14,275,684)
Net loss per common share	$ (0.19)	$ (0.77)	$ (0.72)
Weighted average number of common shares outstanding	24,473,000	19,788,000	19,699,000

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, (Expressed in Canadian Dollars)	1996	1995	1994
Cash provided by (used in) operating activities			
Net loss for the year	$ (4,697,659)	$ (14,689,691)	$ (14,275,684)
Items not involving a current cash flow			
Amortization	1,867,049	1,659,871	1,674,891
Recovery on renegotiation of agreement (Note 6(a)(ii))	–	–	(1,690,469)
Changes in non-cash working capital components			
Receivables, inventories and prepaid expenses	(8,674,697)	(1,550,182)	(2,047,959)
Current liabilities	1,854,001	(425,056)	(336,702)
Cash used in operating activities	(9,651,306)	(15,005,058)	(16,675,923)
Cash provided by (used in) investing activities			
Purchase of capital assets	(1,615,535)	(871,584)	(1,031,686)
Short-term investment securities	(53,565,377)	6,527,714	4,789,422
Long-term investment securities	4,294,938	122	(4,295,060)
Cash provided by (used in) investing activities	(50,885,974)	5,656,252	(537,324)
Cash provided by (used in) financing activities			
Issuance of common shares	92,775,926	2,118,865	638,883
Conversion of Series "C" First Preference Shares	(5,900,000)	–	–
Issuance of Series "D" First Preference Shares	6,850,000	–	–
Dividends paid on First Preference Shares	(1,365,483)	–	–
Other liabilities	–	(700,000)	(290,000)
Cash provided by (used in) financing activities	92,360,443	1,418,865	348,883
Net increase (decrease) in cash and cash equivalents	31,823,163	(7,929,941)	(16,864,364)
Cash and cash equivalents, beginning of year	11,363,889	19,293,830	36,158,194
Cash and cash equivalents, end of year	$ 43,187,052	$ 11,363,889	$ 19,293,830

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars)	Common Shares Shares	Common Shares Amount	Preference Shares Shares	Preference Shares Amount	Accumulated Deficit	Total Shareholders' Equity
Balance at January 1, 1994	19,661,348	$106,444,065	500,000	$5,900,000	$(64,942,659)	$ 47,401,406
Exercise of stock options at prices ranging from $5.88 to $9.38 per share	74,200	593,258	–	–	–	593,258
Issuance of common shares to executive officer at a deemed price of $9.13 per share	5,000	45,625	–	–	–	45,625
Net loss	–	–	–	–	(14,275,684)	(14,275,684)
Balance at December 31, 1994	19,740,548	107,082,948	500,000	5,900,000	(79,218,343)	33,764,605
Exercise of stock options at prices ranging from $5.88 to $11.13 per share	250,791	2,078,240	–	–	–	2,078,240
Issuance of common shares to executive officer at a deemed price of $8.13 per share	5,000	40,625	–	–	–	40,625
Net loss	–	–	–	–	(14,689,691)	(14,689,691)
Balance at December 31, 1995	19,996,339	109,201,813	500,000	5,900,000	(93,908,034)	21,193,779
Exercise of stock options at prices ranging from $5.50 to $24.00 per share	1,092,400	10,606,177	–	–	–	10,606,177
Issuance of common shares at $21.25 per share, net of issuance costs	3,450,000	68,154,266	–	–	–	68,154,266
Conversion of Series "C" First Preference Shares to common shares at par value plus accrued unpaid cumulative dividends	1,180,453	7,265,483	(500,000)	(5,900,000)	(1,365,483)	–
Issuance of Series "D" First Preference Shares to Sanofi Pharmaceuticals Inc.	–	–	368,069	6,850,000	–	6,850,000
Issuance of common shares to Beaufour Ipsen at $34.11 per share	197,863	6,750,000	–	–	–	6,750,000
Net loss	–	–	–	–	(4,697,659)	(4,697,659)
Balance at December 31, 1996	25,917,055	$201,977,739	368,069	$6,850,000	$(99,971,176)	$108,856,563

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company is a pharmaceutical corporation engaged in the research, development and commercialization of light-activated drugs used in photodynamic therapy.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). In certain aspects, Canadian GAAP may differ from generally accepted accounting principles in the United States ("U.S. GAAP"). See Note 11 for significant differences between Canadian GAAP and U.S. GAAP. All amounts are expressed in Canadian Dollars unless otherwise indicated.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All material inter-company transactions have been eliminated.

Cash and Cash Equivalents, Short-term Investment Securities and Long-term Investment Securities

The Company has invested its surplus cash in bankers' acceptances, treasury bills and certificates of deposit. Cash equivalents are valued at cost and accrued interest which approximates market value and have maturities at the date of purchase of less than ninety days.

Short-term investment securities consist principally of bankers' acceptances and certificates of deposit with varying maturities of between ninety days and one year at the date of purchase and are valued at cost and accrued interest which approximates market value.

Long-term investment securities consist of government bonds with maturities in excess of one year at the date of purchase and are valued at cost and accrued interest which approximates market value.

Capital Assets

Capital assets are initially recorded at cost and amortized over their estimated useful lives on a declining-balance basis at 20% per annum, except for leasehold improvements which are amortized on a straight-line basis over the term of the related lease. The Company assesses potential impairment of research equipment by determining the extent of continued productive use of the equipment in the conduct of research and development.

Intangible Assets

Intangible assets consist of: (i) the cost of acquiring patents, licenses and rights to PHOTOFRIN® which are being amortized over a ten year period; and (ii) the cost of acquiring certain marketing rights from American Cyanamid Company which are being amortized over five years. The costs of servicing the Company's patents and other intellectual property are expensed as incurred. The Company assesses potential impairment of the intangible assets by measuring the expected net recovery from products based on these rights on an annual basis.

Common Shares

Common shares issued for consideration other than cash are valued at the quoted market price as of the date of the agreement to issue such common shares.

Government Assistance

Government assistance relating to a capital asset is accounted for as a reduction of the acquisition cost of the capital asset. Government assistance relating to a current expenditure is recorded as a reduction of the related expenditure.

Revenue Recognition

Royalties on product sales are recognized as earned under the Company's collaborative arrangements which generally is consistent with the period of the product sale by the collaborator. Other revenue from collaborative arrangements is recorded as income in the year earned in accordance with the arrangement.

Net Loss Per Common Share

Net loss per common share is computed using the weighted average number of common shares outstanding during the period. Fully-diluted loss per common share has not been disclosed as the effect of common shares issuable upon the exercise of options or warrants would be anti-dilutive.

Research and Development

All costs of research and development activities are recorded as expenses in the year incurred. The Company records amounts reimbursed by its co-development partners for research and development activities performed by the Company as a reduction of research and development costs.

2. RECEIVABLES, INVENTORIES AND PREPAID EXPENSES

	1996	1995
Receivables		
Amounts due under collaborative arrangements	$ 6,990,839	$ 123,471
Amounts due for reimbursement of co-development costs	1,463,776	155,557
Other	432,908	340,802
Inventories		
Raw materials and supplies	593,365	625,608
Finished goods	651,990	351,480
Prepaid expenses	540,903	402,166
	$ 10,673,781	$ 1,999,084

3. CAPITAL ASSETS

	1996	1995
Leasehold improvements	$ 911,652	$ 405,428
Office furnishings and equipment	1,379,489	1,205,677
Research equipment	4,578,962	4,159,965
	6,870,103	5,771,070
Less: Accumulated amortization	(4,161,790)	(3,474,927)
	$ 2,708,313	$ 2,296,143

4. INTANGIBLE ASSETS

	1996	1995
Patents, licenses and rights, at cost	$ 7,392,340	$ 6,893,250
Less: Accumulated amortization	(5,730,475)	(4,567,701)
	$ 1,661,865	$ 2,325,549

Patents, licenses and rights consist of (i) the rights, title and interest respecting the former photodynamic therapy business of Johnson & Johnson, including the rights to the light-activated drug, PHOTOFRIN®, purchased by the Company in 1987 and (ii) certain European marketing rights acquired by the Company in 1996 from American Cyanamid Company. Additional payments based on a percentage of worldwide sales between April 1995 and April 2013 are payable to Johnson & Johnson subject to an annual maximum of U.S. $500,000 and a cumulative maximum of U.S. $4,200,000. Such payments are recorded as selling expenses in the fiscal year relating to the product sales.

5. CURRENT LIABILITIES

	1996	1995
Trade payables	$ 2,045,852	$ 1,052,909
Accrued liabilities	1,292,117	431,059
	$ 3,337,969	$ 1,483,968

6. COLLABORATIVE ARRANGEMENTS

(a) American Home Products Corporation ("American Home")

In 1987, American Cyanamid Company ("Cyanamid") entered into a co-development and distributorship agreement with the Company. In November 1994, American Home acquired indirectly all of the outstanding common shares of Cyanamid, which continues to operate as a wholly-owned subsidiary of American Home. As of December 31, 1996, American Home was the beneficial owner of 2,214,286 common shares, representing approximately 8.5% of the issued and outstanding common shares of the Company.

During the last three fiscal years, the Company had the following related party transactions with American Home or American Cyanamid:

(i) Prior to 1996, the Company and American Cyanamid shared equally certain development costs covering the development of PHOTOFRIN® with the aggregate amount subject to co-funding in 1995 being U.S. $506,000 and 1994 being U.S. $800,000.

(ii) In January 1991, the Company and American Cyanamid entered into an agreement whereby the Company borrowed U.S. $1.68 million, representing one-half of certain product development costs for PHOTOFRIN®. The Company was originally required to repay American Cyanamid an aggregate amount of U.S. $4.2 million from the Company's share of product sales of PHOTOFRIN®. Prior to 1993, the Company had been recording the difference between the amount of the repayment and the original amount as interest expense. On March 18, 1994, American Cyanamid agreed to accept an early repayment of U.S. $1.68 million in monthly payments during 1994 as full repayment for the outstanding obligation. The net effect of the renegotiation of this agreement was recorded as a recovery in 1994.

(iii) During 1996, the Company contracted the services of American Home in the development and manufacturing of PHOTOFRIN® and Benzoporphyrin derivative ("BPD") on a basis consistent with terms and conditions for the provision of such services between unrelated parties for total fees of $309,000 (1995 - $488,000).

(iv) During 1996, the Company reacquired certain product rights to PHOTOFRIN® from American Home with total purchase consideration of approximately $500,000, including the estimated cost of transferring such rights.

(v) Effective December 1, 1996, the Company and various affiliates of American Home entered into three new agreements relating mainly to the continued manufacture and distribution of PHOTOFRIN® in Japan by American Home.

(b) CIBA Vision Ophthalmics AG ("CIBA Vision")

During 1995, the Company entered into an agreement with CIBA Vision for the joint development and marketing of the Company's products as potential treatments for certain eye diseases. The Company is responsible for forty percent of the research and development costs and CIBA Vision is responsible for the remaining sixty percent. The Company and CIBA Vision will share equally the profits realized on revenues from product sales. The parent company of CIBA Vision holds certain common share purchase warrants in the Company. (See Note 7(g)).

(c) Ligand Pharmaceuticals Inc. ("Ligand")
During 1995, the Company entered into a marketing and distribution agreement with Ligand for the exclusive distribution of PHOTOFRIN® in Canada. Under the terms of the ten year agreement, the Company will supply PHOTOFRIN® to Ligand and Ligand and the Company will share revenues from product sales based on a formula provided for in the agreement. Ligand paid the Company an initial licensing fee in 1995 and is obligated to make three fixed payments in the future based on the attainment of certain cumulative net product sales levels.

(d) Sanofi Pharmaceuticals Inc. ("Sanofi")
On January 9, 1996, the Company entered into an agreement with Sanofi with respect to the marketing of the Company's products for cancerous and precancerous conditions in the United States and the Caribbean. Under the terms of the agreement, Sanofi purchased 368,069 non-transferable convertible redeemable Series "D" First Preference Shares issued at a price of U.S. $13.58 (Cdn. $18.47) per share for total proceeds of U.S. $5,000,000 (Cdn. $6,850,000). Also, the Company earned an initial milestone fee of U.S. $5,000,000 (Cdn. $6,900,000) in 1996, which was paid by Sanofi subsequent to the year end. Based upon the occurrence of certain future events, the Company is entitled to additional cash payments of U.S. $16,500,000 (Cdn. $22,600,000).
In addition, the Company is entitled to receive reimbursement of manufacturing costs and royalty payments based on product sales of Sanofi.

(e) Beaufour Ipsen
On December 18, 1996, the Company entered into an agreement with Beaufour Ipsen for the marketing in Europe of the Company's products for cancerous and precancerous conditions.
To obtain these rights, Beaufour Ipsen will provide up to U.S. $28 million (Cdn. $38.3 million) in access fees, milestone payments and minimum research and development funding commitments to the Company. The Company will be responsible for manufacturing and Beaufour Ipsen will pay the Company a royalty on product sales plus a manufacturing transfer price. Under the agreement, Beaufour Ipsen purchased, on a private placement basis, 197,863 common shares of the Company at a price of U.S. $25.27 (Cdn. $34.54) per common share, for a total equity investment of U.S. $5 million (Cdn. $6.8 million), representing a 33% premium-to-market price. Beaufour Ipsen has received a warrant to purchase an additional 197,863 common shares of the Company for U.S. $5 million (Cdn. $6.8 million) anytime prior to December 18, 1999 at the same purchase price.

7. SHARE CAPITAL

(a) During the year ended December 31, 1996, the Company had the following changes in its authorized and issued shares:
(i) Upon the exercise of employees' and directors' options, the Company issued 1,092,400 common shares to employees and directors of the Company at exercise prices between $5.50 and $24.00 per common share.
(ii) Pursuant to an Underwriting Agreement dated April 18, 1996, the Company issued 3,450,000 common shares for net proceeds of $68,154,266 after deducting expenses of the issue of $5,158,234.
(iii) The Company issued 1,180,453 common shares upon the conversion of 500,000 Series "C" First Preference Shares, including accrued unpaid cumulative dividends of $1,365,483.
(iv) In connection with a collaborative arrangement, the Company issued 368,069 Series "D" First Preference Shares to Sanofi for proceeds of U.S. $5,000,000 (Cdn. $6,850,000).
(v) In connection with a collaborative arrangement, the Company issued 197,863 common shares to Beaufour Ipsen for proceeds of U.S. $5,000,000 (Cdn. $6,750,000).

(b) During the year ended December 31, 1995, the Company had the following changes in its authorized and issued shares:
(i) Upon the exercise of employees' and directors' options, the Company issued 250,791 common shares to employees and directors of the Company at exercise prices between $5.88 and $11.13 per common share.
(ii) The Company issued 5,000 common shares to an executive officer at a deemed price of $8.13 per common share pursuant to the employment agreement of the executive officer.

(c) During the year ended December 31, 1994, the Company had the following changes in its authorized and issued shares:
(i) Upon the exercise of employees' and directors' options, the Company issued 74,200 common shares to employees and directors of the Company at exercise prices between $5.88 and $9.38 per common share.
(ii) The Company issued 5,000 common shares to an executive officer at a deemed price of $9.13 per common share pursuant to the employment agreement of the executive officer.

(d) The paid-up share capital for accounting purposes is less than the paid-up capital for tax purposes by an amount of $12,184,174 due to the deduction of share issue expenses and the designation of certain tax credits.

(e) The following is a summary of stock option transactions for the most recent three fiscal years:

	1996		1995		1994	
	Common Shares	Price Range	Common Shares	Price Range	Common Shares	Price Range
Balance, beginning of year	1,376,841	$ 5.50–11.13	1,224,750	$ 5.50–11.13	836,650	$ 5.50–11.13
Options Granted	562,890	$13.50–27.00	544,800	$ 6.63– 9.13	514,750	$ 8.00– 9.75
Options Cancelled	(55,287)	$ 8.00–13.50	(141,918)	$ 8.13–11.00	(52,450)	$ 8.50–10.75
Options Exercised	(1,092,400)	$ 5.50–24.00	(250,791)	$ 5.88–11.13	(74,200)	$ 5.88– 9.38
Balance, end of year	792,044	$ 5.50–27.00	1,376,841	$ 5.50–11.13	1,224,750	$ 5.50–11.13

The balance of options outstanding at December 31, 1996 have expiration dates ranging up to November 27, 2001 with a weighted average exercise price of $16.01 per common share.

(f) On March 17, 1992, the Company adopted a Shareholder Protection Rights Plan (the "Plan") to protect its shareholders from unfair, abusive or coercive take-over strategies. Under the Plan, holders of common shares are entitled to one share purchase right for each common share held. Generally, if any person or group makes a take-over bid, other than a bid permitted under the plan (a "Permitted Bid") or acquires 20% or more of the Company's outstanding common shares without complying with the Plan, the Plan will entitle these holders of share purchase rights to purchase, in effect, common shares of the Company at 50% of the prevailing market price. The Plan was approved by the shareholders of the Company on April 28, 1992 and is subject to renewal at the 1997 Annual Meeting of shareholders.

A take-over bid for the Company can avoid the dilutive effects of the share purchase rights, and therefore become a Permitted Bid, if it complies with provisions of the Plan or if it is expressly approved by the Board of Directors. To be a Permitted Bid, an offer must comply with all applicable corporate and securities laws and extend to all common shares of all shareholders on identical terms. If the bid contains non-cash consideration, the take-over bid circular must be accompanied by an opinion of a nationally and internationally recognized investment dealer on the fair market value of the non-cash consideration.

In addition, to qualify as a Permitted Bid, the bid must have an initial tendering period of 75 days, at least 50% of the then outstanding common shares must be tendered to the bid and, if successful, the bid must be extended for a further 10 days to enable non-tendering shareholders to also tender their shares. Subject to certain grandfathering provisions, in order to qualify as a Permitted Bid, the bidder must not own more than 5% of the common shares at the commencement of the bid or while the bid remains outstanding. The Plan includes an exception designed to avoid inadvertent triggering of the dilutive effects of the share purchase rights by investment fund managers who do not intend to make a take-over bid.

(g) In relation to a licensing agreement with the parent company of CIBA Vision, the Company has issued 500,000 common share purchase warrants exercisable into common shares of the Company on an equal exchange basis upon payment of the following exercise prices within the following expiry dates:

Exercisable	Exercise Price per Common Share
March 22, 1995 to March 21, 1996	$ 7.35
March 22, 1996 to March 21, 1997	8.09
March 22, 1997 to March 21, 1998	8.45
March 22, 1998 to March 21, 1999	8.82

As at December 31, 1996, no common share purchase warrants had been exercised.

8. INCOME TAXES

The Company has $16,272,000 of research and development expenditures available for unlimited carry forward, $6,274,000 of non-capital losses expiring between 1999 and 2004, and $3,678,000 of unclaimed investment tax credits expiring between 1997 and 2003 all of which may be used to reduce future Canadian income taxes otherwise payable. In addition, the Company has U.S. $53,477,000 of net operating losses expiring between 2003 and 2011 which may be used to reduce future U.S. income taxes otherwise payable. The timing and manner in which these losses may be used could be limited as a result of certain ownership changes which may occur as provided under U.S. tax legislation. Recognition of the potential tax benefits associated with these items has not been reflected in the financial statements.

9. SEGMENTED INFORMATION

The Company operates entirely in the pharmaceutical industry. As at December 31, 1996, the Company's tangible assets were located in Canada except for $710,000 (1995 - $641,000; 1994 - $656,000) of net research equipment which is located in the United States and Europe. General and administrative expenses were incurred entirely in Canada, except for $330,000 which relates to operations of the Company's European subsidiary.
Research and development costs were incurred geographically as follows:

	1996	1995	1994
United States	$ 2,322,000	$ 2,433,000	$ 5,534,000
Canada	8,851,000	9,045,000	6,950,000
Europe	307,000	590,000	1,362,000
	$ 11,480,000	$ 12,068,000	$ 13,846,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. COMMITMENTS

The Company has entered into two operating leases with respect to its offices which expire on September 30, 1999. Minimum future rental commitments are as follows:

1997	$ 620,000
1998	620,000
1999	465,000

The Company is responsible for its proportionate share of operating costs under the leases. During the year ended December 31, 1996, the amount of net rental expense was $952,000. (1995 – $868,000; 1994 – $613,000).

The Company is also responsible for payment of royalties to unrelated third parties for certain product sales. These royalty arrangements are on reasonable commercial terms and are in the ordinary course of business in the pharmaceutical industry.

11. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(a) Accounting for Certain Investments in Debt and Equity Securities.

In May 1993, the Financial Accounting Standards Board in the United States issued Statement of Financial Accounting Standard No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities." Under SFAS 115, management determines the appropriate classification of cash equivalents, short-term investment securities and long-term investment securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Under SFAS 115, the Company would classify such holdings as available-for-sale securities, which are to be carried at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity.

If the Company had adopted SFAS 115, the effect on shareholders equity and net income would not have been material for any of the years ended December 31, 1996, December 31, 1995 or December 31, 1994.

(b) Accounting for Income Taxes.

Under U.S. GAAP, the Company is required to account for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance against the net deferred tax debits may be provided for due to the uncertainty of realization.

The Company has determined that the adoption of SFAS 109 does not result in a material effect on the net deferred income tax position of the Company as any deferred tax assets initially recognized are fully offset by a valuation allowance as at December 31, 1996.

The approximate tax effect of each type of temporary difference and carryforward which gives rise to the Company's deferred tax asset are as follows:

December 31	1996	1995
Amortization of capital assets	$ 1,358,000	$ 1,076,000
Amortization of intangible assets	(105,000)	(570,000)
Net operating loss carryforwards	26,269,000	25,624,000
Unclaimed research and development expenditures	11,834,000	11,627,000
Unclaimed investment tax credits	2,768,000	2,546,000
Subtotal	42,124,000	40,303,000
Less: valuation allowance	(42,124,000)	(40,303,000)
	$ –	$ –

(c) Accounting for Stock Based Compensation

Under U.S. GAAP, in accordance with Statement of Financial Accounting Statements No. 123 ("SFAS No. 123"), Accounting for Stock Based Compensation, the Company is required to either disclose or recognize stock based compensation costs using the fair value method. Under Canadian GAAP, the fair value of stock based compensation costs, using either the intrinsic or fair value methods, is not recognized or disclosed in the financial statements.

The following unaudited pro forma financial information presents the net loss and loss per common share had the Company adopted SFAS No. 123.

	1996	1995
		(Unaudited)
Net loss	$ (11,088,087)	$ (16,304,199)
Loss per common share	$ (0.45)	$ (0.82)

Using the fair value method for stock based compensation, during the year ended December 31, 1996, additional compensation costs would be $6,390,428 (1995 - $1,614,508). This calculation is determined using an options pricing model assuming no dividends are to be paid on common shares, a weighted average volatility of the Company's common share price of 76.51% (1995 - 32.99%) and a weighted average risk free interest rate of 5.40% (1995 - 7.06%).

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation used in the current year.

COMMON SHARE INFORMATION

The common shares of the Company are listed and posted for trading in Canada on The Toronto Stock Exchange under the symbol "QLT" and are authorized for quotation in the United States on Nasdaq under the symbol "QLTIF". The following table sets forth, for the periods indicated, the high and low sales prices and trading volume of the Common Shares, as reported by The Toronto Stock Exchange and Nasdaq, respectively.

	THE TORONTO STOCK EXCHANGE ($CDN)			NASDAQ ($US)		
	high	low	volume	high	low	volume
1996						
First Quarter	$ 18.50	$ 11.50	8,375,285	$ 13.75	$ 8.50	2,258,900
Second Quarter	32.30	17.63	11,362,858	23.50	12.75	8,334,100
Third Quarter	26.20	18.00	5,547,885	19.19	13.00	3,888,300
Fourth Quarter	29.10	22.25	4,069,554	21.13	16.38	2,369,400
1995						
First Quarter	$ 9.38	$ 7.00	1,757,421	$ 6.63	$ 5.00	418,400
Second Quarter	7.88	6.25	1,623,130	5.88	4.75	484,900
Third Quarter	9.88	7.50	1,574,635	7.25	5.38	401,900
Fourth Quarter	14.25	7.75	3,103,389	10.38	5.63	1,453,000

The last reported sale price of the Common Shares on The Toronto Stock Exchange and on Nasdaq on February 28, 1997, was Cdn. $37.00 and U.S. $26.94, respectively.

As of February 28, 1997, there were approximately 662 registered holders of the Common Shares of the Company with approximately 26% of the Common Shares held by 311 registered holders who are residents of the United States.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

ANNUAL FINANCIAL DATA

Set forth below is selected consolidated financial information for the five fiscal years ended December 31, 1996, 1995, 1994, 1993 and 1992, which information has been derived from the consolidated financial statements of the Company that have been audited by Deloitte & Touche for the fiscal years then ended.

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). In certain respects, Canadian GAAP may differ from generally accepted accounting principles in the Untted States ("US GAAP"). The Company does not believe that there are any material differences between Canadian GAAP and US GAAP with respect to the information set forth below. For a more extensive discussion of the differences between Canadian GAAP and US GAAP, see Note 11 to the audited consolidated financial statements.

Year Ended December 31 ($ Canadian in thousands except per share amounts)	**1996**	1995	1994	1993	1992
Statement of Operations Data					
Research and development costs	**$ 11,480**	$ 12,068	$ 13,846	$ 11,523	$ 8,174
Total revenues	**13,497**	2,531	3,776	1,169	1,282
Net loss	**(4,698)**	(14,690)	(14,276)	(12,730)	(9,788)
Per Common Share	**(0.19)**	(0.77)	(0.72)	(0.75)	(0.69)
Balance Sheet Data					
Working capital	**$ 104,486**	$ 12,277	$ 24,060	$ 45,905	$ 25,790
Total assets	**112,195**	22,678	37,513	54,660	33,781
Long-term debt	**–**	–	–	4,553	7,226
Shareholders' equity	**108,857**	21,194	33,765	47,401	25,169

QUARTERLY FINANCIAL DATA

Set forth below is selected unaudited financial information for the fiscal quarters of 1996 and 1995.

Three Months Ended ($ Canadian in thousands except per share amounts)	March 31	June 30	September 30	December 31
1996				
Total revenues	$ 345	$ 1,103	$ 1,175	$ 10,874
Net income (loss)	(2,898)	(3,148)	(2,694)	4,042
Per Common Share	(0.14)	(0.14)	(0.12)	0.21
1995				
Total revenues	$ 864	$ 432	$ 456	$ 779
Net loss	(3,411)	(3,778)	(3,299)	(4,202)
Per Common Share	(0.17)	(0.19)	(0.17)	(0.24)

CORPORATE DIRECTORY

DIRECTORS

E. Duff Scott, [2,4]
President,
Multibanc NT Financial Corp.

Peter A. Crossgrove, [1,3]
President and Chief Executive Officer,
Southern Africa Minerals Corporation

Jan Dlouhy, Ph.D.[2,3]
Retired Vice President, Licensing and Acquisitions, Medical and Agricultural Groups, American Cyanamid Company

Robert J. Feeney, Ph.D.[2,3]
General Partner,
Hambrecht and Quist Life Science Technology Fund

Anthony F. Griffiths,[1]
Corporate Director

Julia G. Levy, Ph.D.
President and Chief Executive Officer,
QLT PhotoTherapeutics Inc.

1. Member of the Audit Committee
   Chair–Anthony F. Griffiths
2. Member of the Nominating Committee
   Chair–E. Duff Scott
3. Member of the Executive Compensation Committee
   Chair–Peter A. Crossgrove
4. Chairman of the Board of Directors

CORPORATE HEADQUARTERS

QLT Place, 520 West 6th Avenue
Vancouver, British Columbia
Canada V5Z 4H5
Telephone: (604) 872-7881
Fax: (604) 875-0001

SENIOR MANAGEMENT

Julia G. Levy, Ph.D.
President and Chief Executive Officer

Kenneth H. Galbraith, C.A.
Senior Vice President and Chief Financial Officer and Corporate Secretary

Mohammad Azab, M.D.
Vice President, Clinical Research and Medical Affairs

David Dolphin, Ph.D.
Vice President,
Technology Development

Edwin Levy, Ph.D.
Vice President,
Corporate Development

Alexandra Mancini
Vice President,
Regulatory Affairs

Lee Anne Pilson
Vice President,
Marketing

REGISTERED AND RECORDS OFFICES

Farris, Vaughan, Wills & Murphy
2600 - 700 West Georgia Street
Vancouver, British Columbia V7Y 1B3

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
ATTN: Stock and Bond
Transfer Department
510 Burrard Street
Vancouver, B.C. V6C 3B9

For change of address, lost stock certificates and other related inquiries, please write to the above address

CORPORATE BANKERS

Royal Bank of Canada
Vancouver, Canada

INDEPENDENT AUDITORS

Deloitte & Touche
Vancouver, Canada

STOCK LISTING

The Company's Common Shares are traded on The Toronto Stock Exchange under the symbol QLT and on Nasdaq under the symbol QLTIF.

FORM 10-K ANNUAL REPORT

A copy of the Company's Form 10-K Annual Report, as filed with the Securities and Exchange Commission, is available without charge upon request from:

QLT PhotoTherapeutics Inc.
Investor Relations Department
QLT Place, 520 West 6th Avenue
Vancouver, British Columbia
Canada V5Z 4H5

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Vancouver Trade & Convention Centre, at 10:00 a.m. on Monday, May 12, 1997.

QLT PhotoTherapeutics Inc.

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